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NATIONAL INTELLIGENCE DAILY CABLE

Friday 14 April 1978

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**NATIONAL SECURITY INFORMATION**

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National Intelligence Daily Cable for Friday, 14 April 1978.

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The NID Cable is for the purpose of informing senior US officials.

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WEST GERMANY: Neutron Weapons

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 //West German Chancellor Schmidt strongly defended President Carter's decision to defer production of the neutron weapon in yesterday's Bundestag debate that focused on West Germany's response to that decision. Schmidt also expressed trust that the US would uphold the West Europeans' security interests while negotiating a SALT II treaty.//

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[] //Both the governing and opposition parties agreed, however, that West Germany needs the neutron weapon as a negotiating "chip." In discussing the weapon, Schmidt spoke of "disparities which jeopardize the balance of power in the conventional realm and, to a growing extent, in the nuclear medium-range field" and said that it is important that the latter disparities be considered during the SALT negotiations.//

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[] //The opposition called on the government to convey to President Carter its support for stationing the neutron weapon in NATO countries, including West Germany, but its resolution was defeated.//

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[] //Leaders of the opposition parties charged that the government had neglected West German and European security rather than dispute openly the Social Democratic opponents of the neutron weapon, especially former Chancellor Brandt and Egon Bahr, one of the first Social Democrats to criticize the weapon.//

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[] //Spokesmen from both the governing and opposition parties accused the other side of damaging relations with the US. Schmidt accused Christian Social Union leader Franz Josef Strauss of slandering President Carter while Strauss charged that Schmidt is a feckless leader and accused Bahr of insulting the President by characterizing the neutron weapon as a "preversion of thought." There was acknowledgment from both sides that relations with the US are not always easy. []

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PORTUGAL: Leadership Struggle

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[] *Differences between moderate and conservative factions threaten to rupture Portugal's largest opposition party--the Social Democrats--and have already prompted its governing political committee to resign. A showdown is expected this weekend when moderates, led by party head Sousa Franco, confront sympathizers of former party leader Sa Carneiro in a meeting of the party's national council. President Eanes and Prime Minister Soares, both objects of Sa Carneiro's personal vendettas, will face increasing pressures if the party's right wing emerges victorious.*

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[REDACTED] //The decision on the next steps now rests with the national council, which has a somewhat broader party base.// The council will be extremely reluctant to accept the resignations and may try to persuade the current leadership to adopt a harder line that will appease rightwingers. [REDACTED]

[REDACTED] If the resignations are accepted, the matter will go before the national party congress, where Sa Carneiro's support is greatest.

[REDACTED] Some accommodation of the right seems inevitable if the party is to remain intact. As the party's spiritual leader and former president, Sa Carneiro may still command majority support among the Social Democratic rank and file. His views appeal to growing numbers of party members who believe the government is selling out to Western financial interests and who suspect Eanes and Soares of secret deals with the Communists.

[REDACTED] In recent attacks Sa Carneiro accused Eanes of leading Portugal into "presidential militarism." He also asserted that Eanes' failure to act in past government crises makes the President and Soares responsible for the country's severe economic and political problems. Such criticism poses no immediate challenge to Eanes and Soares, especially now that the right must devote itself to internal problems. It does, however, indicate what can be expected if the right wing closes ranks behind Sa Carneiro. [REDACTED]

INTERNATIONAL: Copper Prices

[REDACTED] *Prices of copper on the London Metal Exchange have strengthened in recent weeks as a result of increasing bullishness among traders. Several basic factors, however, militate against a strong market recovery this year.*

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[] Copper prices have risen from 54 cents a pound in early March to 60 cents on Monday. Market optimism has been sparked by the announced agreement between Zambia, Zaire, and Peru to cut production by 15 percent. Zaire also decided in late March to meet sales commitments with purchases from London Metal Exchange copper stocks, which have dropped by 10 percent since mid-January, and thus added further to upward speculative pressures.

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[] The impact of these moves will be temporary. Although consumption may reach a record 7 million tons this year, demand will remain well below capacity. Capacity has increased steadily since the previous consumption record of 6.9 million tons in 1973.

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[] Prospects are further dampened by the 2 million tons of refined copper that remain on the market, Chile's refusal to go along with production cuts, and Peru's decision to measure its 15-percent cut against capacity rather than against last year's production. Peru will be able to observe the letter of the agreement and still produce more than it did last year as new mines become productive. []

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CHINA-JAPAN: Conflicting Claims

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[] Japan has officially protested the continuing presence of Chinese fishing vessels in Japanese-claimed waters around the Senkaku Islands. The Chinese have rejected the protest and reiterated their own claim to the Senkakus. At a press conference in Taipei, meanwhile, a Chinese Nationalist spokesman stated yesterday that Taiwan's claim to the islands was "indisputable."

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[] Japanese patrol vessels first sighted several Chinese ships fishing inside the islands' 12-mile limit on Wednesday. When asked to leave, the Chinese held up signs stating that the waters were Chinese. Tokyo clearly does not plan to use force; the Japanese have not boarded the Chinese ships or attempted to drive them off, but are maintaining surveillance.

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[] In turning aside yesterday's Japanese protest, Chinese officials linked the incident to lack of progress on the Sino-Japanese peace and friendship treaty. Japanese officials have said that they have no intention of connecting the two issues.

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[] In 1972, when China and Japan restored diplomatic relations, both parties agreed to put aside their rival claims to the Senkakus for later negotiation. By sending 100 fishing vessels into the area--32 of which have entered the 12-mile zone--Peking is ignoring this agreement in an apparent effort to show its displeasure with Tokyo. []

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USSR - EAST EUROPE: Trade Deficits

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[] Moscow continues to provide substantial assistance to its East European trade partners to cover their rapidly rising trade deficits with the USSR. These deficits--totaling \$1.9 billion last year, compared with \$157 million in 1974--have been incurred largely because of rising Soviet oil prices. Soviet help in sustaining deficits of this magnitude is particularly welcome to the East Europeans at this time because they are also faced with severe hard currency trade and payments problems.

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[] The Soviets have extended ruble trade credits on terms that are not known to most of the East European countries and have also arranged some indirect hard currency relief. A multiyear agreement with Hungary, for example, provides for the exchange of Soviet "hard" goods--items easily marketable or in high demand--for Hungarian meat that had been shut out of the West European market.

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[] Moscow has sometimes allowed East European countries to divert exports to the West to augment hard currency earnings. In other instances, the Soviets have provided unplanned deliveries of needed raw materials and semi-manufactures that otherwise would have to be imported from the West.

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[] Higher oil prices have accounted for more than half the increase in the value of Soviet exports to the five East European countries running deficits with the USSR. Only Romania, which does not import Soviet oil but buys other raw materials

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from the USSR, enjoys a surplus in its trade with the Soviets, and even this has been dwindling. Moscow raised its oil prices 20 percent last year, and another 20-percent hike is scheduled for 1978, these increases will mean the East European will continue to have large deficits and a need for further Soviet financial support.

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Chile

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[redacted] The reorganization of the Chilean cabinet announced Tuesday night reflects President Pinochet's apparent determination to bring more civilians into the government. He may also be trying to counter charges that he is losing his grip in the face of pressing foreign and domestic problems. By naming a trusted civilian lawyer to the key post of Interior Minister and by giving him the authority to orchestrate further cabinet Pinochet seems to be upholding a commitment he made last week to give civilians a broader role in the planned transition to civilian rule. The shift of a taciturn and austere Army general from the Interior to the Defense Ministry seems calculated to remove him from the initial process of completing a new constitution and organizing a plebiscite to approve it. [redacted]

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